

**UMJINDI LOCAL MUNICIPALITY**

**DRAFT 2015/16 MEDIUM-TERM REVENUE AND  
EXPENDITURE FRAMEWORK  
(MTREF) and  
(DRAFT 2015/16 BUDGET)**

**EXECUTIVE SUMMARY**

<b>Core Business Area</b>	Financial Services Directorate
<b>Operational Area</b>	Budget & Treasury Section

**Owner: Umjindi Budget & Treasury Section  
Client: Umjindi Local Municipality**

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## **1. PURPOSE**

- 1.1 The purpose of the report is to table the draft 2015/2016 Medium-Term Revenue and Expenditure Framework (MTREF) and 2015/2016 Budget before Council in terms of Section 16(1 and 2) of the Local Government: Municipal Finance Management Act (MFMA), 2003 Act 56 of 2003, which states that the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

## **2. BACKGROUND (OVERVIEW)**

- 2.1 The 2014/15 MTREF and the non-adjusted MTREF for the 2014/2015 financial year will be remembered for the tremendous challenges that the Municipality encountered during the compilation of the 2015/2016 MTREF due cash flow constraints and competing IDP priorities as well as institutional needs for betterment of working conditions for staff.
- 2.2 The 2014/15 Budget directly informed the compilation of the 2015/16 MTREF (As the 2014/2015 budget was not adjusted in January 2015), aligned to the spirit of the MFMA, and more specifically the principle of multi-year budgeting.
- 2.3 The 2015/16 Budget and MTREF (2015/2016, 2016/2017 and 2017/2018) is now being tabled for consideration and adoption according to section 24 of MFMA (Municipal Finance Management Act, 56 of 2003), and the MFMA Circular No. 74 Municipal Finance Management Act No. 56 of 2003 Budget.
- 2.4 Section 22 (b), 23(3) and 24(3) of the MFMA will apply and be submitted to the National Treasury and the relevant Provincial Treasury in printed and electronic formats.

### 3. BUDGET ASSUMPTIONS (BUDGET PROCESS)

3.1 The Budget is prepared in an environment of uncertainty (Possible merge with Mbombela Local Municipality) and assumptions need to be made about internal and external factors that could impact on the budget during the course of the financial year.

3.2 In compiling the 2015/18 MTREF, the following issues and assumptions that already started during the very difficult 2014/2015 MTREF process were taken into consideration as the economic meltdown continued with ripple effects in 2015 and still have a major effect on the budget planning process and outcomes for the 2015/2016 MTREF :

#### 3.2.1 MFMA Circular No. 74 Municipal Finance Management Act No. 56 of 2003

##### **Key focus areas for the 2015/16 budget process**

##### **The Medium Term Budget Policy Statement 2014**

The MTBPS highlights that South Africa's economic performance has deteriorated over the past several years. Gross domestic product (GDP) growth of 1.4 per cent is estimated in 2014, down from 3.6 per cent in 2011. GDP growth is projected to improve over the medium term as infrastructure constraints ease, private investment recovers and exports grow. Economic growth is expected to rise gradually over the medium term, reaching 3 per cent by 2017

Key priorities of government are to reshape South Africa's urban environment through integrated spatial planning, investment in dynamic city development, integrated housing and transport programmes, and support for business activity and job creation. The Medium Term Strategic Framework (MTSF) priorities for structural reform over the period ahead include:

- ***Building the capacity of local government through the "back to basics" approach*** which will focus on improving service delivery, accountability and financial management. Local government should be effective and efficient; and this will be measured by its ability to perform the basic mandate of service delivery.

- Reshaping South Africa's urban environment through **integrated spatial planning and an expansion of the municipal debt market**. Municipalities play a critical role in growing the economy through well-planned and well-managed urbanisation. In order to achieve this, large municipalities require massive investment to stimulate growth, maintain infrastructure and ensure that basic services are provided for growing populations. Over the next three years, the government will roll-out a new approach to local government infrastructure financing. Incentives will be introduced to encourage large urban municipalities to promote more compact, efficient and equitable cities. Planning will focus on developing mixed-use precincts that can help to catalyse economic activity, and on upgrading informal settlements.

The economic growth plays a critical role in job creation; therefore greater private sector investment in the economy is encouraged. Municipalities must continue to undertake

joint planning with their communities and respective business sectors that drive the local economy

3.2.2 Economic climate;

3.2.3 Poverty levels;

3.2.4 Inflation; and

3.2.5 Service delivery cost increases

3.2.6 Increase of staff costs and demands

3.3 Tariff and Property Rate increases should be affordable and on line with the CPIX, as outlined in the MFMA Circular 74 from National Treasury however taking into account the need to address infrastructure requirements, as well as adjusting some tariff to make the costs of rendering the service to breakeven, therefore some tariff can be increased with more than the CPIX. **The MFMA Circular 74 however stipulates as follows:**

### **Revising rates, tariffs and other charges**

#### **Operating Revenue**

Municipal revenues and cash flows are expected to remain under pressure in 2015/16 due to the state of the economy; therefore municipalities should adopt a conservative approach when projecting their expected revenues and cash receipts. Municipalities should also pay particular attention to managing all revenue and cash streams effectively, by paying particular attention to their revenue management processes and procedures.

Municipalities are therefore required to realistically provide for revenue as part of the statement of financial performance, cash flow and capital programme.

Another challenge identified was that municipalities are not able to set cost-reflective tariffs as advised in previous circulars because the cost drivers are not known. Municipalities are advised to determine the costs per service in determining tariffs. The use of tariff models will not yield positive results in municipalities that do not know their cost drivers as would any financial model based on incorrect information.

When municipalities and municipal entities revise their rates, tariffs and other charges for the 2015/16 budgets and MTREFs, they need to take into account the primary and secondary costs of services provided, local economic conditions and affordability of services to ensure financial sustainability.

National Treasury also continues to encourage municipalities to keep increases in rates, tariffs and other charges at levels that reflect an appropriate balance between the interests of poor households, other customers and ensuring the financial sustainability of the municipality. For this reason municipalities ***must justify in their budget documentation all increases in excess of the 6.0 per cent*** upper boundary of the South African Reserve Bank's inflation target in the budget narratives.

3.4 No budget will be allocated for capital projects unless they are included in the IDP.

3.5 The disposal / selling of municipal vacant land (Stands to be sold) will be included as anticipated revenue to be realized and form part of the budget. The council will have to provide in future for more stands to be made available to middle and high income groups that can afford payment for services and which will expand the revenue base of the municipality.

- 3.6 Operational costs will be maintained at current levels or reduced as cost containment measures.
- 3.7 Budget allocations for externally funded projects will be maintained at approved or gazetted (**DIVISION OF REVENUE** *(As introduced in the National Assembly (proposed section 76(1)); explanatory summary of the Bill published in Government Gazette No. 38458 of 13 February 2015)*)
- 3.8 Cash flow projections should be strictly maintained to ensure the municipality's ability to meet its obligations as contemplated in the draft budget.
- 3.9 Employees salaries and contributions have been increased in line with the stipulations as contemplated in Circular 74 that reads as follows;
- Employee related costs**  
*The Salary and Wage Collective Agreement* for the period 01 July 2012 to 31 June 2015 has come to an end. In the absence of other information from the South African Local Government Bargaining Council, municipalities are advised to budget for a 5.8 per cent cost-of-living increase adjustment to be implemented with effect from 01 July 2015 (in line with the increase proposed in the 2014 MTBPS). Municipalities must further use the inflation forecast to project increases in the outer years.
- 3.11 Increase for Councillors allowances has been allowed for in the 2015/16 MTREF in line with the Remuneration of Public Office Bearers Act (No. 20 of 1998) and a provisional increase of 6% is budgeted for
- 3.12 The Budget makes provision for ±2500 indigent household to be registered, approved and will be receiving free basic services in 2015/16.
- 3.13 **This Budget does not make provision for Council to enter into any new external loans for capital funding purposes during the 2015/2016 financial year.**
- 3.14 Provision for non-receipt of billed income has been made in the budget (this is called the working capital budget). It is assumed that of the total income budget 88% will be received as actual income. Collection rate currently varies between 84% and 89%.
- 3.15 The Equitable Share, Finance Management Grant, Municipal System Improvement Grant, National Electrification Programme Grant, Water Infrastructure Grant and EPWP Incentive Grant where determined in line with the 2015/16 Division of Revenue Bill. *( Bill published in Government Gazette No. 38458 of 13 February 2015)*

#### **4. 2015/2016 BUDGET HIGHLIGHTS**

- 4.1 An amount of R 3,5 million has been budgeted for the indigent household subsidization on municipal services (Electricity, Refuse removal, Sewerage and Property Rates) excluding water.
- 4.2 An amount of R3,2 million has been budgeted for free basic water services to other residents (6Kl Water to all residential consumers).
- 4.3 An amount of R104,6 million has been budgeted for infrastructure and institutional development (MIG=R30,6 Million, INEP=R4 million and R70 million for water infrastructure).
- 4.4 **The envisaged sources of funding for the Capital Budget must be properly considered and the Council is satisfied that this funding is available and has not been committed for other purposes before any capital project or item started with or purchased.**

## 5. OPERATING BUDGET

5.1 The following table represents the 2015/16 Budget.

	Vote Description Revenue (Income)	Final Budget 2014/2015	Actual (July 2014 - December 2014)	Adjusted Budget 2014/2015	Draft Budget 2015/2016	Budget 2016/2017	Budget 2017/2018
	<b>OPERATING REVENUE BY</b>						
1	Property Rates	23 945 737	51 582 413	23 945 737	25 582 481	27 245 342	29 152 516
2	Property Rates-Forgone	-6 583 721	-26 461 755	-6 583 721	-6 978 744	-7 432 363	-7 952 628
3	<b>Property Rates</b>	<b>17 362 016</b>	<b>25 120 658</b>	<b>17 362 016</b>	<b>18 603 737</b>	<b>19 812 980</b>	<b>21 199 888</b>
4	Electricity	48 387 799	20 351 131	48 387 799	51 082 626	54 402 997	58 211 207
5	Electricity Pre-Paid	30 384 208	15 984 592	30 384 208	32 701 318	34 826 904	37 264 787
6	Water	29 931 182	12 884 761	29 931 182	30 174 859	32 136 225	34 385 761
7	Sanitation	5 972 712	2 938 956	5 972 712	6 280 086	6 688 291	7 156 471
8	Refuse Removal	12 396 999	6 337 113	12 396 999	13 597 660	14 481 508	15 495 213
9	Grants Operational	62 717 000	42 523 200	65 117 000	81 407 200	74 587 023	79 074 555
10	Interest & Inv Inc	350 000	424 410	350 000	371 000	395 115	422 773
11	Rent of Facilities	1 092 243	481 393	1 092 243	1 358 777	1 447 098	1 548 394
12	Interest on O/S Debt	2 000 000	2 949 570	2 000 000	2 120 000	2 257 800	2 415 846
13	Traffic Fines	252 300	46 680	252 300	267 438	284 821	304 759
14	Fines	677	-	677	718	765	818
15	Licenses and permits (Agency	2 818 130	1 427 901	2 818 130	2 987 218	3 181 387	3 404 084
16	Other (Miscellaneous)	4 268 556	1 651 748	4 268 556	4 524 669	4 818 773	5 156 087
17	Gains on Disposal of Assets	300 000	-	300 000	318 000	338 670	362 377
18	Profit on Sale of Inv Prop / Land	1 254 391	334 279	1 254 391	7 329 655	1 416 082	1 515 208
	<b>TOTAL OPERATING REVENUE</b>	<b>219 488 212</b>	<b>133 456 392</b>	<b>221 888 212</b>	<b>253 124 961</b>	<b>251 076 438</b>	<b>267 918 229</b>
**	Grants Conditional	1 500 000	-	1 500 000	1 590 000	1 693 350	1 693 350
	<b>TOTAL REVENUE</b>	<b>220 988 212</b>	<b>133 456 392</b>	<b>223 388 212</b>	<b>254 714 961</b>	<b>252 769 788</b>	<b>269 611 579</b>

9. Grants Operational	<b>2015/2016</b>	<b>2016/2017</b>	<b>2017/2018</b>
	<b>-81 407 200</b>	<b>-74 587 023</b>	<b>-79 074 555</b>
EQUITABLE SHARE	-67 368 000	-71 926 000	-76 257 000
GRANT FUNDING (EPWP)	-1 435 000	0	0
BOBS SUBSIDY GOVERNMENT	-74 200	-79 023	-84 555
MUNICIPAL FINANCE MANAGEMENT GRANT	-1 600 000	-1 625 000	-1 700 000
MSIG / SMIF GRANT	-930 000	-957 000	-1 033 000
CONDITIONAL GRANT	-10 000 000	0	0



	Vote Description Expenditure	Final Budget 2014/2015	Actual (July 2014 - December 2014)	Adjusted Budget 2014/2015	Draft Budget 2015/2016	Budget 2016/2017	Budget 2017/2018
19	Employee Remuneration	70 697 089	32 126 073	70 697 090	75 244 070	81 663 210	87 379 634
20	Employee : Social Contribution	15 082 379	6 243 120	15 082 379	16 274 094	17 331 910	18 545 144
21	Councillors Remuneration	7 040 104	2 689 277	7 040 104	7 462 511	7 947 574	8 503 904
22	Depreciation	23 000 000	-	23 000 000	24 380 000	25 964 700	27 782 229
23	Repair & Maintenance	4 170 707	1 626 331	4 170 707	10 232 249	8 873 845	9 495 014
24	Interest Paid	753 634	783 728	753 634	798 852	850 777	910 332
25	Bull Purchases	62 535 000	31 756 667	62 535 000	71 721 391	76 383 281	81 730 111
26	Contracted Services	11 847 822	6 048 648	11 847 822	12 465 679	13 275 948	14 205 264
27	Grant&Subsidy paid Operational	8 735 000	3 221 891	11 135 000	18 375 000	7 391 100	7 908 477
28	Pauper Burial Services	25 000	-	25 000	35 000	37 275	39 884
29	Contribution to Funds & Reserves	18 302 596	-	18 302 596	19 400 752	20 661 801	22 108 127
30	Internal Capital	3 141 000	121 266	3 141 000	4 089 819	-	-
31	General Expenses	31 104 968	9 486 428	31 104 521	33 343 372	33 982 416	36 361 185
32	Finance Grants	2 534 000	2 370 797	2 534 000	2 530 000	2 582 000	2 733 000
	<b>TOTAL OPERATING</b>	<b>258 969 299</b>	<b>96 474 226</b>	<b>261 368 853</b>	<b>296 352 787</b>	<b>296 945 836</b>	<b>317 702 305</b>
	Grants Conditional	-	-	-	-	-	-
	<b>TOTAL EXPENDITURE</b>	<b>258 969 299</b>	<b>96 474 226</b>	<b>261 369 299</b>	<b>296 352 787</b>	<b>296 945 836</b>	<b>317 702 305</b>
	<b>Surplus/(Deficit)</b>	<b>-37 981 086</b>	<b>36 982 166</b>	<b>-37 981 086</b>	<b>-41 637 827</b>	<b>-44 176 048</b>	<b>-48 090 726</b>
	<b>Increase / (Decrease) in total</b>		<b>-62.75%</b>	<b>0.93%</b>	<b>14.44%</b>	<b>0.20%</b>	<b>6.99%</b>
	<b>NON-CASH ITEMS</b>						
	Asset depresiation	23 000 000		23 000 000	24 380 000	25 964 700	27 782 229
	Bad Debts	15 371 596		15 371 596	16 293 892	17 352 995	18 567 704
	Other Provisions	2 931 000		2 931 000	3 106 860	3 308 806	3 540 422
	Interest Debtors	-2 000 000		-2 000 000	-2 120 000	-2 257 800	-2 415 846
	<b>Actual Surplus / (Deficit) on</b>	<b>1 321 510</b>		<b>1 321 510</b>	<b>22 925</b>	<b>192 652</b>	<b>-616 216</b>
	Orders (Expend commitments)			<b>14 287 264</b>	<b>24 015 418</b>		

26.Contractd services	<b>2015/2016</b>	<b>2016/2017</b>	<b>2017/2018</b>
	<b>12 465 679</b>	<b>13 275 948</b>	<b>14 205 264</b>
AUDIT COMMITTEE	53 000	56 445	60 396
INSURANCE	2 278 965	2 427 098	2 596 995
LEGAL FEES	143 240	152 551	163 229
RADIO & TV LICENSES	51 263	54 595	58 416
RENT EQUIPMENT (FAX & COPIER)	1 883 542	2 005 972	2 146 390
FLEET MANAGEMENT (C-TRACI)	21 200	22 578	24 158
INTERNET / TELEPHONE RENTAL	46 356	49 369	52 825
TELEPHONE RENT	49 891	53 134	56 853
TRAFFIC CONVENTION SYSTEM	27 004	28 759	30 772
HIRING, LEASING OF VEHICLES	5 115 735	5 448 258	5 829 636
PROGRAMME RENTALS	0	0	0
SECURITY	2 115 883	2 253 415	2 411 154
SECURITY- CASH IN TRANSIT	47 733	50 835	54 394
VALUATION COSTS	631 868	672 940	720 045

27.Grants & Subsidy paid operational	<b>2015/2016</b>	<b>2016/2017</b>	<b>2017/2018</b>
	<b>8 375 000</b>	<b>7 391 100</b>	<b>7 908 477</b>
EQUITABLE SHARE INDIGENT and FREE BASIC SERVICES	6 940 000	7 391 100	7 908 477
EPWP Grant	1 435 000	7 391 100	7 908 477

29. Contribution to funds & reserves	<b>2015/2016</b>	<b>2016/2017</b>	<b>2017/2018</b>
	<b>19 400 752</b>	<b>20 661 801</b>	<b>22 108 127</b>
LEAVE STABILISATION FUND CONTRIBUTION	1 516 860	1 615 456	1 728 538
LANDFILL SITE PROVISION	1 590 000	1 693 350	1 811 885
WORKING CAPITAL RESERVE - BAD DEBTS	16 293 892	17 352 995	18 567 704

32. Finance Grants	<b>2015/2016</b>	<b>2016/2017</b>	<b>2017/2018</b>
	<b>2 530 000</b>	<b>2 582 000</b>	<b>2 733 000</b>
FINANCE MANAGEMENT GRANT	1 600 000	1 625 000	1 700 000
MSIG GRANT EXPENDITURE	930 000	957 000	1 033 000

- 5.2 The deficit of (– R 41 660 752.00) does include non-cash items for asset depreciation of R24 380 000, 00, R 16 293 892.00 for Provision for bad debts (Debtor impairment), R 3 106 860 for Other Provisions (Landfill Site and Leave Stabilization fund), R 2 120 000.00 for interest on long outstanding debtors (Debtors impairment) creating a surplus of R 22 925.00 if Internal Capital of R 4 089 819 is added to the Operational Budget.
- 5.3 Departments were given the opportunity (In several management meetings that was conducted) to refine their budget proposals in line with the budget principles and availability of revenue.
- 5.4 These sessions did not only focus on expenditure, but revenue generation potential within the context of improved service delivery, operational efficiencies and potential gains

## 6. EXTERNAL FUNDS (GRANTS) - DoRA

- 6.1 With the promulgation of the 2015 Division of Revenue bill in February 2015, the following operational and capital allocations towards the municipality have been factored into the MTREF. (*Bill published in Government Gazette No. 38458 of 13 February 2015*)

DESCRIPTION	BUDGET 2014/15	BUDGET 2015/16
MIG	29 824 000	30 650 000
INEP	5 300 000	4 000 000
FMG	1 600 000	1 600 000
MSIG	934 000	930 000
EPWP Incentive	1 795 000	1 435 000
Water Infrastructure Grant	21 000 000	70 000 000
Disaster Recovery Grant	0	10 000 000
Equitable Share	58 318 000	67 369 000
<b>TOTAL GRANTS</b>	<b>118 771 000</b>	<b>185 984 000</b>

- 6.2 The table below illustrates how the above grants have been allocated to the various projects in the 2015/16 budget year:

DESCRIPTION	FINAL BUDGET
<b>MUNICIPAL INFRASTRUCTURE GRANT (MIG)</b>	
<b>TOTAL MIG</b>	<b>30 650 000</b>

<b>WATER INFRASTRUCTURE GRANT</b>	
Bulk Pipeline, Storage & Reticulation (eMjindini)	8 000 000
Bulk Pipeline, Storage & Reticulation (eMjindini Trust)	8 000 000
Kamadakwa Ndlovu Storage & Reticulation	8 000 000
Main (Rimers creek) WTP	15 000 000
Main (Barberton) Bulk pipeline, Reticulation & Reservoir	8 600 000
Upgrade bulk water supply & Extension of reticulation Sheba siding	22 400 000
<b>TOTAL MWIG</b>	<b>70 000 000</b>

<b>INTERGRATED NATIONAL ELECTRIFICATION PROGRAMME (INEP)</b>	
<b>TOTAL INEP</b>	<b>4 000 000</b>

<b>MUNICIPAL DISASTER RECOVERY GRANT</b>	
Municipal disaster recovery grant	10 000 000
<b>TOTAL MDRG</b>	<b>10 000 000</b>

<b>MUNICIPAL SYSTEMS IMPROVEMENT GRANT (MSIG)</b>	
Valuation Roll	300 000
SCOA (Standard Charter of Accounting)	500 000
Asset Register	110 000
Development of By-laws	20 000
<b>TOTAL MSIG</b>	<b>930 000</b>

<b>FINANCE MANAGEMENT GRANT (FMG)</b>	
CPMD Training	300 000
Financial Interns	600 000
Review of Annual financial Statements (Case Ware Program and new GRAP implementations	500 000
Internal Financial Management Workshops (SEBATA Financial Training/GRAP/SCOA	200 000
<b>TOTAL FMG</b>	<b>1 600 000</b>

<b>EQUITABLE SHARE</b>	
Free Basic Services to all residents(Water 6Kl)	3 232 392
Subsidy for approved Indigent households	3 451 040
MPRA (Municipal Property Rates Act)	535 496
Operational support for ward committees	540 000
Operational support for Councillors remuneration	3 250 000
Revenue to operational budget	56 359 072
<b>TOTAL</b>	<b>67 369 000</b>
<b>EPWP INCENTIVE GRANT</b>	
Labour intensive projects	1 435 000
<b>TOTAL</b>	<b>1 435 000</b>

## 7. CAPITAL BUDGET

7.1 The Capital budget per department (Expenditure and funding resource) for the 2015/2016 financial year will be as per the attached capital budget schedule.

7.2 The total capital budget currently equates to:

Internal R 4 089 819  
Grants R 104 650 000

7.3 Departments have to take into account their capacity and funding to spend the requested budgets against the allocated projects in order to ensure implementation and provision of services delivery.

## **8. REVENUE FRAMEWORK**

- 8.1 In order to serve the community and to render the services needed, revenue generation is fundamental to financial sustainability of every municipality.
- 8.2 The reality is that we are faced with developmental backlogs and poverty, challenging our revenue generation capacity. The requests always exceed the available funds. This was even more obvious when compiling the 2015/2016 budget.
- 8.3 Municipalities must table a balanced and more credible budget, based on realistic estimation of revenue that is consistent with their budgetary resources and collection experience.
- 8.4 The revenue strategy is a function of key components such as:
  - 8.4.1 Growth in town and economic development;
  - 8.4.2 Revenue enhancement;
  - 8.4.3 Achievement of 90% annualized collection rate for consumer revenue;
  - 8.4.4 National Treasury guidelines;
  - 8.4.5 Electricity tariff increases within National Electrification Regulator of South Africa (NERSA) approval;
  - 8.4.6 Approval of full cost recovery of specific department;
  - 8.4.7 Determining tariff escalation rate by establishing/calculating revenue requirement; and
  - 8.4.8 Ensuring ability to extent new services and recovering of costs thereof.
- 8.5 Increase revenue base through providing stands/Property (Municipal Flats) to be sold to middle and high income earners and commercial who can afford to pay for municipal services.

## 9. TARIFF SETTING

- 9.1 Umjindi Municipality derives its revenue from the provision of services such as electricity, water, sanitation and refuse removal. A considerable portion of the revenue is also derived from property rates and grants by national governments as well as other minor charges such as traffic fines.

- 9.2 Tariff increases are primarily driven by the Consumer Price Index

*Municipalities must take the following inflation forecasts into consideration when preparing their 2015/16 budgets and MTREF. This information will be updated in a further Budget Circular to be issued after the tabling of the National Budget.*

Fiscal year	2014	2015	2016	2017	2018
	Actual	Estimate	Forecast		
CPI Inflation	5.6%	6.2%	5.8%	5.5%	5.3%

*Source: Medium Term Budget Policy Statement 2014*

*The MFMA Circular 74 however stipulates as follows:*

When municipalities and municipal entities revise their rates, tariffs and other charges for the 2015/16 budgets and MTREFs, they need to take into account the primary and secondary costs of services provided, local economic conditions and affordability of services to ensure financial sustainability.

National Treasury also continues to encourage municipalities to keep increases in rates, tariffs and other charges at levels that reflect an appropriate balance between the interests of poor households, other customers and ensuring the financial sustainability of the municipality. For this reason municipalities ***must justify in their budget documentation all increases in excess of the 6.0 per cent*** upper boundary of the South African Reserve Bank's inflation target in the budget narratives.

- 9.3 It is realised that the ability of the community to pay for services rendered is also under tremendous pressure and that the economic outlook for the near future require everybody to make sacrifices.
- 9.4 The additional revenue that will be generated through tariff increased has to ensure continued service delivery.
- 9.5 Tariff increases were therefore calculated at 6% with regards to the main services, with the exception of Electricity.
- 9.6 By increasing tariffs higher on essential commodities, more strain will be placed on the already cash stripped resident households

9.7 Increases beyond the 6% included in the draft MTREF will only add to bad debt which is already high and a decline in the cash flow

9.8 The outcome of the increases in tariffs on the different revenue categories is as follows:

DETAILS	2014/15 TOTAL BUDGETED REVENUE	2015/16 TOTAL BUDGETED REVENUE	2015/16 INCREASE
Property Rates	23,945,737	25 582 481	
Property Rates Forgone	-6 583 721	-6 978 744	
<b>Total Property Rates</b>	<b>17 362 016</b>	<b>18 603 737</b>	<b>7.16%</b>
Electricity	78,772,007	83 783 944	6.37%
Water	29,931,182	30 174 859	0.82%
Sanitation	5,972,712	6 280 086	5.15%
Refuse Removal	12,396,999	13 597 660	9.69%
<b>TOTAL</b>	<b>151,018,637</b>	<b>152 440 286</b>	<b>0.95%</b>



## 9.10 Property Rates

9.10.1 Property rates cover the shortfall on the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeted process.

CATEGORY	TARIFF 2014/15 (No VAT)	PROPOSED TARIFF 2015/16 (No VA	Increase (Decrease) in tariff
	<b>C</b>		
Residential	0.0085	0.0090	6%
Business & Commercial	0.0170	0.0180	6%
Industrial	0.0170	0.0180	6%
State owned residential	0.0085	0.0090	6%
State owned non-residential	0.0085	0.0090	6%
Agricultural residential	0.0085	0.0090	6%
Agricultural non-residential (Land solely for farming)	0.0085	0.0090	6%
Agricultural non-residential (Business)	0.01700	0.0180	6%
Agricultural vacant land	0.0085	0.0090	6%
All non-agricultural land	0.0085	0.0090	6%
All non-permitted use	0.0085	0.0090	6%

## 9.11 Water

9.11.1 A 6% increase in water tariffs applicable to the residents of Umjindi is proposed

9.11.2 A summary of the proposed tariffs (**VAT INCLUDED**) for households (residential) and non-residential are as follows as from 1 July 2015.

<b>CATEGORY</b>	<b>TARIFFS 2014/15 (Including VAT)</b>	<b>PROPOSED TARIFFS 2015/16 (Including VAT)</b>	<b>PROPOSED TARIFFS 2015/16 Increase</b>
	<b>Per Kl R</b>	<b>Per Kl R</b>	<b>%</b>
<b>Monthly Basic Charge per Category</b>			
Residential ( Approved indigents Free)	46.48	49.27	6.0%
Residential: Town Developed & Churches ( Approved indigents Free)	46.48	49.27	6.0%
Residential: Emjindini Developed & Churches ( Approved indigents Free)	42.15	44.68	6.0%
Residential: Undeveloped	86.10	91.27	6.0%
Business	86.10	91.27	6.0%
Prison farm	125 459.65	132 987.23	6.0%
<b>Purified Water per Month</b>			
Residential Consumer 0 – 6 kl		0.00	0.00
All consumers 7 kl – 25 kl	6.62	7.02	6.0%
26 kl – 35 kl	7.53	7.98	6.0%
36 kl and above	7.56	8.01	6.0%
<b>Unpurified Water to Industries and Crocodile Farm</b>			
First 500 kl or part thereof	608.40	644.91	6.0%
Above 500 kl	2.15	2.28	6.0%
			<b>%</b>
<b>Non-Residential (e.g Industrial, Businesses)</b>	Cost + 15%	Cost + 15%	

<b>Testing of Meter</b>			
Where meter show an error of less than 2,5%	163.99	173.83	6.0%
Where meter show an error of more than 2,5%	N/C	N/C	
<b>Water Connection</b>			
Water connection	1738.40	1842.71	6.0%
Poverty (Indigent) tariff (A281/2005)	552.67	585.783	6.0%
<b>PENALTIES: TAMPERING WITH WATER METERS (RECONNECTION FEE)</b>			
<b>Domestic Consumers (Pre-paid &amp; Conventional)</b>			
<b>FIRST OFFENCE</b>			
Without damage to installation	3202.26	3394.40	6.0%
With damage to installation	384271	4073.27	6.0%
<b>SECOND OFFENCE</b>	6404.52	6788.79	6.0%
<b>THIRD OFFENCE</b>			
Legal action and removal of meter			

<b>SELF – RECONNECTION</b>			
When a customer has illegally reconnected himself/herself after he/she has been cut-off due to reasons such as: <ul style="list-style-type: none"> <li>• Failure to pay his/her account;</li> <li>• After meter has been found tampered with; and</li> <li>• Meter by-passed by customer</li> </ul>	6404.52	6788.79	6.0%
If customers readings, differs from those taken when he/she was cut-off, such customer be declared self-reconnected and the following fine be imposed upon him/her and the installation	6404.52	6788.79	6.0%

be removed			
<b>BUSINESS CONSUMERS AND LARGE WATER USERS</b>			
<b>FIRST OFFENCE</b>			
Plus an estimated cost for loss of income during the period when the meter was tempered with	6404.52	6788.79	6%
<b>SECOND OFFENCE</b>			
Legal action and removal of meter			
The occupier/owner of the property be held liable for any tempering with any meter on his/her property			

## 9.11 Refuse Removal

9.11.1 The following table indicates a comparison between current and proposed amounts payable from 1 July 2015 **(VAT INCLUDED)**

<b>021 REFUSE REMOVAL : ALL NEW TARIFF STRUCTURE WAS IMPLEMENTED 2012/2013</b>	<b>TARIFFS 2014/15 (Including VAT)</b>	<b>PROPOSED TARIFFS 2015/16 (Including VAT)</b>	<b>PROPOSED TARIFFS 2015/16 Increase</b>
<b>Once per week : Residential</b>			
1 <sup>st</sup> Bin : All Sections	90.63	96.07	6%
<b>Schools</b>			
<b>Category A</b> (With Boarding Facilities)BTN Hoërskool, BTN Primary	4591.92	4867.44	6%
<b>Category B</b> (Without Boarding Facilities) Mhola Primary, Comprehensive High School, Sikhuthele, Amon NKosi, Ngwane, eMjindini, Ekucathuzeni, BTN Secondary, Mountainview, Ehlanzeni FET, Veldskool etc	1812.60	1921.36	6%
<b>Category C</b> (e.g Kleuterskool, Gummy Bears, Gateway, Barberton Creche)	870.05	922.25	6%
<b>Category D</b> (Prison Farm)	28179.89	29870.68	6%
<b>Category E</b> (Town Prison)	17932.66	19008.62	6%
<b>Category F</b> (General business=not food premises)	624.74	662.23	6%
<b>Category G</b> (SAPS, Court, Home Affairs, Mafrica Clinic, Circuit Office, Dept Sports / Museum, Cathysville Clinic, Town Clinic, Labour Dept, Public Works, Regiment Botha	4867.44	5159.48	6%
<b>Institutions</b>			
<b>Category H</b> (BTN General Hospital)	7129.56	7557.33	6%
<b>Category I</b> (SANTA Hospital)	6767.04	7173.06	6%
<b>Category J</b> Commercial Businesses (Eureka, Lomati, Shoprite, Jock of the Bushveld)	16917.60	17932.66	6%

<b>Category K : Medi- clinic</b>	5548.88	5881.81	6%
Commercial Wholesalers / Supermarket	1752.18	1857.31	6%
Food Premises, Butcheries, Food Outlets	896.63	950.43	6%
General Business Garages & Spares	614.83	651.72	6%
Spaza Shops	224.76	238.25	6%
Commercial Residents High Waste Generation (e.g Flats)	749.21	794.16	6%
Special removals (6m <sup>2</sup> )	1749.21	1854.17	6%
Cleaning of Erven per m <sup>2</sup>	1.81	1.92	6%
<b>NEW (introduced 2014/2015)</b>			
Private waste removal: 1-2 Ton per disposal	22.80	24.17	6%
Private waste removal: 3 Ton per disposal	45.60	48.34	6%
Private waste removal: > than 3 Ton per disposal	91.20	96.67	6%

## 9.12 Sanitation

9.12.1 The tariff is proposed to be increased by 6% from 1 July 2015

9.12.2 The following table indicate the proposed tariffs (**VAT INCLUDED**) to be implemented with effect from 1 July 2015:

CATEGORY	TARIFFS 2014/15 (Including VAT)	PROPOSED TARIFFS 2015/16 (Including VAT)	PROPOSED TARIFFS 2014/15 Increase
	R		
<b>Private Residential Purposes</b>			
For every 100m <sup>2</sup> or portion thereof	7.39	7.83	6%
Maximum	143.91	152.54	6%
<b>Prisons</b>			
For every 100m <sup>2</sup> or portion thereof	7.39	7.83	6%
Maximum	3361.99	3563.71	6%
<b>Other Land</b>			
For every 100m <sup>2</sup> or portion thereof	7.39	7.83	6%
Maximum	2017.19	2138.22	6%
<b>Domestic Sewerage</b>			
Per water closet pan, urinal or compartment	21.89	23.20	6%
<b>Connection Fees</b>			
<b>Non-Residential (e.g Industrial, Businesses)</b>	Cost + 15%		
<b>Sewerage Connection Fees</b>			
Sewerage connection fees	1508.79	1599.32	6%
Poverty (Indigent) tariff	719.14	762.29	6%

Self-Connection / Illegal Connection Fees					
When a resident, business has illegally connected him/herself to the sewerage network					
Residential			2036.64	2158.84	6%
Business			4073.27	4317.67	6%
Sewerage Blockages Private Properties			No service	No service	



### 9.13 Electricity

9.13.1 The tariff is proposed to be changed according to NERSA guidelines and did the MFMA circular 74 stipulates as follows;

**MFMA Circular No. 74 Municipal Finance Management Act No. 56 of 2003**

**Eskom bulk tariff increases**

Municipalities are advised to structure their 2015/16 electricity tariffs based on the **12.69 per cent** guideline and provide for a **14.24 per cent** increase in the cost of bulk purchases for the tabled 2015/16 budgets and MTREF. Any changes to these guidelines will be communicated to municipalities in a further Budget Circular for the 2015/16 financial year to be issued shortly after the tabling of the National Budget.

9.13.2 **Only residents of Umjindi who are registered and approved indigent household will continue to get the 50 kWh per month free of charge.**

9.13.3 The following table indicates the proposed electricity charges **(VAT INCLUDED)** for the 2015/16 financial year.

CATEGORY	TARIFFS 2014/15 (Including VAT)	PROPOSED TARIFFS 2015/16 (Including VAT)	PROPOSED TARIFFS 2014/15 Increase
<b>DOMESTIC (HOUSEHOLD, FLATS, GUEST HOUSES, CHURCHES &amp; SCHOOLS WITHOUT KVA AND AGRICULTURAL HOLDINGS)</b>			
<b>Domestic Basic Charge</b>			
Domestic with no consumption for 30 days and longer & vacant stands			
Residential	221.14	249.20	12.69%
<b>Domestic Energy Charge of Electricity (Block tariff)</b>			
Conventional 0 – 50 units      Block 1	0.841	0.901	7.08%

Conventional 51– 351 and above units Block 2	1.055	1.140	8.03%
Conventional 351– 600 units Block 3	1.431	1.607	12.34%
Conventional 601– above Block 4	1.702	1.892	11.17%
Pre-paid Domestic 0 -50 units Block 1	0.841	0.901	7.08%
Pre-paid Domestic 51 -350 units Block 2	1.055	1.140	8.03%
Pre-paid Domestic 351 -600 units Block 3	1.443	1.607	12.34%
Pre-paid Domestic 600 and above Block 4	1.702	1.892	11.17%
<b>COMMERCIAL (MUNICIPAL , BUSINESS ETC)</b>			
<b>Basic Charge (conventional)</b>			
Three phase (including vacant stand)	1117.81	1259.67	12.69%
Single phase (including vacant stand)	981.23	1105.75	12.69%
<b>Energy Charge of Electricity</b>			
Charge per unit	1.552	1.769	14.00%
Business consumption (Pre-paid)	1.739	1.959	12.69%
<b>INDUSTRIAL (MUNICIPAL, BUSINESS, SCHOOLS WITH KVA ECT)</b>			
<b>Low Voltage 400 V (Demand Scale)</b>			
Metered KVA	167.08	188.28	12.69%
Charge per unit	0.802	0.918	14.50%
Basic charge (including vacant stands)	1438.71	1621.28	12.69%
<b>Time of use</b>			
Peak	3.380	3.809	12.69%
Standard	0.789	0.889	12.70%
Off-peak	0.530	0.598	12.69%
<b>KVA 11000V</b>			
Metered KVA	167.08	188.28	12.69%
Charge per unit	0.624	0.719	15.30%
Basic charge (including vacant stand)	1472.16	1658.98	12.69%
<b>Time of use</b>			
Basic charge	1360.59	1533.25	12.69%
Demand charge per kVA (30 min periods)	53.10	59.74	12.69%
<b>Energy charges</b>			

<b>Peak</b>			
High Demand (June – August)	2.820	3.178	12.69%
Low Demand (September – May)	0.920	1.037	12.69%
<b>Standard</b>			
High Demand (June – August)	0.854	0.963	12.69%
Low Demand (September – May)	0.633	0.714	12.69%
<b>Off-peak</b>			
High Demand (June – August)	0.464	0.523	12.69%
Low Demand (September – May)	0.402	0.453	12.69%
<b>CONNECTION CHARGES AND OTHER MAINTENANCE</b>			
Single phase pre-paid meter	7078.58	7786.44	10.00%
Single phase conventional meter	6971.33	7668.46	10.00%
Single phase pre-paid meter (Poverty)Indigent	2123.57	2335.93	10.00%
Three phase pre-paid meter	11797.63	12977.40	10.00%
Three phase conventional meter	11447.28	12592.01	10.00%
Change conventional to pre-paid meter (single phase)	1161.17	1277.29	10.00%
Change conventional to pre-paid meter (three phase)	2373.83	2611.20	10.00%
Change pre-paid to conventional (Single phase)	1204.07	1324.49	10.00%
Change pre-paid to conventional (Three phase)	2373.83	2611.20	10.00%
<b>PENALTIES: TAMPERING WITH ELECTRICITY METERS</b>			
<b>Domestic Consumer (Pre-paid &amp; Conventional)</b>			
<b>First Offence</b>			
Without damage to installation	4104.00	4514.40	10.00%
With damage to installation	5253.12	5778.43	10.00%
<b>Second Offence</b>			
	5991.84	6591.03	10.00%
<b>Third Offence</b>			
Legal action and removal of meter			

<b>SELF – RECONNECTION</b>			
When a customer has illegally reconnected himself/herself after he/she has been cut-off due to reasons such as: <ul style="list-style-type: none"> <li>• Failure to pay his/her account;</li> <li>• After meter has been found tampered with; and</li> <li>• Meter by-passed by customer</li> </ul>			
If customers readings, differs from those taken when he/she was cut-off, such customer be declared self-reconnected and the following fine be imposed upon him/her and the installation be removed	4104.00	4514.40	10.00%
<b>Business Consumers and Large Power users</b>			
<b>FIRST OFFENCE</b>			
Plus an estimated cost for loss of income during the period when the meter was tampered with	10177.92	11195.71	10.00%
<b>SECOND OFFENCE</b>			
Legal action and removal of meter			
The occupier/owner of the property be held liable for any tampering with any meter on his/her property			
<b>Testing of Meters (Section 9(1) of By Laws)</b>			
Attendance to complaint other than fault in council's supply or equipment (per call)	1553.71	1709.08	10.00%
Testing of electrical installation (Section 16(8)b of By-Laws) – On request of consumer	665.87	732.46	10.00%
<b>Replacement of tariff circuit breakers with</b>			
Higher circuit breaker per phase	517.90	569.69	10.00%
Lower circuit breaker per phase	517.90	569.69	10.00%
<b>Consumer is of the opinion tariff circuit breaker to current value that its rating</b>			
Tariff	517.90	569.69	10.00%
Per circuit breaker	266.35	292.98	10.00%

(These costs are refundable at non-compliance)			
After a tariff circuit breaker has been tested, the Engineer's finding as to the tariff circuit breaker's compliance with the provisions of these By-Laws shall be final and a tariff circuit breaker shall be regarded as complying with the provisions of these By-Laws if the test proves that it does not trip within 30 minutes when it passes a steady current of 5% below its rating			
Aggregate of units determined by Council Engineer			
<b>Testing/fault finding on electrical cables</b>			
First 2 hours	1849.65	2034.62	10.00%
Every hour thereafter	665.87	732.46	10.00%
Plus: Travel cost			
<b>Tariff classification</b>			
In the event of a dispute regarding the tariff under which a consumer is classified, Council's decision shall be final			

## 9.14 Other tariffs

### 9.14.1 Cemetery

#### Tariffs increase of 6% (VAT INCLUDED)

	TARIFFS 2014/15 (Including VAT)	PROPOSED TARIFFS 2015/16 (Including VAT	PROPOSED TARIFFS 2014/15 Increase
<b><u>001 Cemetery</u></b>			
<b>Within Umjindi</b>			<b>%</b>
<b>Indigents</b>			
Adult	255.21	270.53	6%
Child and Stillborn (0 - 12 Years)	141.27	149.75	6%
<b>All Others</b>			
Adult	715.28	758.19	6%
Child and Stillborn (0 - 12 Years)	353.22	374.41	6%
<b>Wall of Remembrance</b>			
Single Niche	203.08	215.27	6%
Double Niche	432.69	458.65	6%
<b>Reservations' of graves and niches</b>			
Grave	141.29	149.76	6%
Niche	45.92	48.67	6%
Widening or deepening graves	300.29	318.30	6%
Curbstone decorations/applications	88.33	93.63	6%
Exhumation of a body	785.51	832.64	6%

<b><u>001 Cemetery</u></b>	<b>TARIFFS 2014/15 (Including VAT)</b>	<b>PROPOSED TARIFFS 2015/16 (Including VAT)</b>	<b>PROPOSED TARIFFS 2014/15 Increase</b>
<b><u>001 Cemetery</u></b>	<b>2014/2015</b>	<b>2015/201</b>	
<b>Outside Umjindi</b>	Total including VAT		
	R		
<b>Indigents</b>			
Adult	302.93	321.11	6%
Child and Stillborn (0 - 12 Years)	151.47	160.56	6%
<b>All Others</b>			
Adult	1395.53	1479.26	6%
Child and Stillborn (0 - 12 Years)	697.77	739.63	6%
<b>Wall of Remembrance</b>			
Single Niche	442.48	469.03	6%
Double Niche	893.49	947.10	6%
<b>Reservations' of graves and niches</b>			
Grave	289.33	306.69	6%
Niche	93.65	99.27	6%
Widening or deepening graves	289.29	306.69	6%
Curbstone decorations/applications	100.30	106.32	6%
Exhumation of a body	810.84	859.49	6%
<b>NEW (introduced 2014/2015)</b>			
<b>Renting of halls</b>			
Deposit (Refundable)	2850.00	3021.00	6%
Rental per day	3420.00	3625.00	6%
<b>Renting Emjindini Stadium</b>			
Deposit (Refundable)	1140.00	1208.00	6%
Rental per day	2850.00	3021.00	6%

# 10. EXPENDITURE FRAMEWORK

10.1 Some of the salient features and best practice methodologies relating to expenditure include the following:

- 10.1.1 Asset renewal strategy (infrastructure repairs and maintenance a priority)
- 10.1.2 Balanced budget constraint (expenditure cannot exceed revenue)
- 10.1.3 Capital programme aligned to asset renewal strategy
- 10.1.4 Operational gains and efficiencies resulting in additional funding capacity on the capital programme as well as redirection of funding to other critical areas.

10.2 The following table is a high level summary of the 2015/16 Budget

(Classified per main category of operating expenditure not including any capital (External and Internal).

Vote Description Expenditure	Final Budget 2014/2015	Actual (July 2014 - December 2014)	Adjusted Budget 2014/2015	Draft Budget 2015/2016	Budget 2016/2017	Budget 2017/2018
Employee Remuneration	70 697 089	32 126 073	70 697 090	75 244 070	81 663 210	87 379 634
Employee : Social Contribution	15 082 379	6 243 120	15 082 379	16 274 094	17 331 910	18 545 144
Councillors Remuneration	7 040 104	2 689 277	7 040 104	7 462 511	7 947 574	8 503 904
Depreciation	23 000 000	-	23 000 000	24 380 000	25 964 700	27 782 229
Repair & Maintenance	4 170 707	1 626 331	4 170 707	10 232 249	8 873 845	9 495 014
Interest Paid	753 634	783 728	753 634	798 852	850 777	910 332
Bull Purchases	62 535 000	31 756 667	62 535 000	71 721 391	76 383 281	81 730 111
Contracted Services	11 847 822	6 048 648	11 847 822	12 465 679	13 275 948	14 205 264
Grant&Subsidy paid Operational	8 735 000	3 221 891	11 135 000	18 375 000	7 391 100	7 908 477
Pauper Burial Services	25 000	-	25 000	35 000	37 275	39 884
Contribution to Funds & Reserves	18 302 596	-	18 302 596	19 400 752	20 661 801	22 108 127
Internal Capital	3 141 000	121 266	3 141 000	4 089 819	-	-
General Expenses	31 104 968	9 486 428	31 104 521	33 343 372	33 982 416	36 361 185
Finance Grants	2 534 000	2 370 797	2 534 000	2 530 000	2 582 000	2 733 000
<b>TOTAL OPERATING</b>	<b>258 969 299</b>	<b>96 474 226</b>	<b>261 368 853</b>	<b>296 352 787</b>	<b>296 945 836</b>	<b>317 702 305</b>
Grants Conditional	-	-	-	-	-	-
<b>TOTAL EXPENDITURE</b>	<b>258 969 299</b>	<b>96 474 226</b>	<b>261 369 299</b>	<b>296 352 787</b>	<b>296 945 836</b>	<b>317 702 305</b>

10.3 The total expenditure for the 2015/2016 financial year has increased by 14.4% against the 2014/15 adjustment budget.

10.4 The cost (revenue forgone) of the social package of the registered **and approved** indigent household is off-set against the equitable share received in terms of the DoRa (Division of Revenue Act). (*Bill published in Government Gazette No. 38458 of 13 February 2015*)



## 10.5 Local government budget and financial management reforms

### ***Regulation of a 'Standard Chart of Accounts' (SCOA) for local government***

The Minister of Finance promulgated the Municipal Regulations on the Standard Chart of Accounts (SCOA) on 22 April 2014. The Municipal Regulations on the Standard Chart of Accounts, Project Summary Document and Detailed Classification Framework of the 7 Segments (SCOA Version 5) can be accessed at:

<http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Pages/default.aspx>

Similarly to that of national and provincial government, the municipal SCOA essentially provides for a uniform and standardised financial classification framework by which municipalities are required, at a transactional level, to record all expenditure, revenue, assets and liabilities. While the overall objective and benefits of the municipal SCOA vary, the introduction of the municipal SCOA across all 278 municipalities will undoubtedly improve the ability of municipalities and councils to take informed decisions and improve service delivery outcomes through improved evidence based financial management. Importantly, it will also facilitate the aggregation of budgets and financial performance to ensure 'whole of government' reporting.

In preparation for SCOA implementation by all 278 municipalities by 01 July 2017, the National Treasury has commissioned SCOA Project Phase 4. SCOA Project Phase 4 incorporates various activities including the piloting of the SCOA classification framework in selected municipalities (across all financial systems currently operational in municipalities) with the implementation of the 2015/16 budget (01 July 2015). In addition, as a lead-up to the SCOA implementation by 01 July 2017, there will be a host of change management initiatives including the introduction of a formal training programme.

While non-piloting municipalities do not formally partake in the SCOA ICF, there are a host of immediate activities that need to be undertaken by all municipalities concurrently to the piloting process in preparation for implementation in July 2017. These include, among others:

- Tabling the Municipal Regulations on Standard Chart of Accounts in the municipal council to bring about broader awareness;
- Studying the Regulation, SCOA Project Document, associated Segments and Frequently Asked Questions which can be accessed at the above mentioned website;
- Compilation of a high level project plan and associated activities, including:
  - ✓ Identification of a project manager / coordinator within the municipality which should preferably be within the finance department at a senior manager level;

- ✓ Matching the SCOA classification framework to the current chart of accounts (general ledger) currently operational in the municipality and the identification of any anomalies;
  - ✓ Matching the Function Segment of the SCOA classification framework to the current vote and cost centre structures and identification of any anomalies;
  - ✓ Incorporating all senior managers across the municipality into the project through internal awareness and information sharing;
  - ✓ Incorporating the project plan and associated milestones as part of a standing agenda item at the monthly senior manager team meetings; and
  - ✓ Tabling a progress report, including a risk matrix at the municipal council on a quarterly basis.
- Attendance of, among others, the provincial CFO Forums which will be used to provide feedback with the piloting process. In addition, there will be sessions scheduled, such as the recent provincial one day SCOA introductory sessions, which will provide further clarity as it relates to the SCOA classification framework. Attendance of these sessions by relevant officials, including the municipal SCOA project manager / coordinator, will be essential if the municipality is to proactively manage any hurdles to ensuring SCOA compliance.

### ***Financial applications (systems) and the impact of SCOA***

Municipalities are reminded that MFMA Circular No. 57 is still in effect and the guidance, processes and procedures provided in the Circular are still applicable.

**Currently no system vendor (financial systems) could demonstrate SCOA compliance** and municipalities are therefore strongly advised not to proceed with any configuration or upgrades to their current core financial systems as this could potentially lead to fruitless and wasteful expenditure not to mention exposing the municipality to unnecessary risk as it relates to SCOA compliance. As indicated above, as part of SCOA Project Phase 4 all system vendors have been included in the piloting process and are currently undertaking reconfiguration and upgrades to their system functionality in support of the multidimensional chart as prescribed by the SCOA Regulations.

Furthermore, municipalities are advised that in many cases the implementation of the SCOA classification framework could be considered a reimplementation of a financial system as it relates to take on balances of previous financial years and setting up of a new general ledger. Consequently the opportune time to change financial applications would in most cases be with the implementation of the SCOA classification framework and will undoubtedly be the most cost efficient approach. Further guidance in this regard will be provided in the MFMA Circular that will be issued in early in 2015.

## **11. CONCLUSION**

- 11.1 Although the Municipality in its entirety faces many financial and non-financial challenges, and the possible merge with the Mbombela Local municipality the continued improvement and development of an effective financial planning process aids the actualization of fulfilling its facilitating role to capacitate the community to build a prosperous future for all.
- 11.2 The 2015/2016 Budget contains realistic and credible revenue and expenditure proposals which should provide sound basis for improved financial management and institutional development as well as service delivery improvement and implementation.
- 11.3 The public participation and consultation process should take place in April/May 2015 regarding the community input on the budget for 2015/2016

## **12. RECOMMENDATION**

- 12.1 That in terms of Section 24(1) of the Local Government: Municipal Finance Management Act (MFMA), 2003 (Act 56 of 2003), the budget and MTREF of the municipality for the financial year 2015/2016, and indicative allocations for the two projected outer years 2016/2017 and 2017/2018, and the multi-year and single year capital appropriations are approved as set out in the following tables:
  - 12.1.1 Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table A2.
  - 12.1.2 Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table A3.
  - 12.1.3 Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table A4.
  - 12.1.4 Multi-year and single year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table A5.
- 11.2 That the financial position, cash flow, cash-backed reserves/accumulated surplus, asset management and basic service delivery target are adopted as set out in the following tables:
  - 12.2.1 Budgeted Financial Position as contained in Table A6.
  - 12.2.2 Budgeted Cash Flows as contained in Table A7.
  - 12.2.3 Cash backed reserves and accumulated surplus reconciliation as contained in Table A8.

- 12.2.4 Asset Management as contained in Table A9.
- 12.2.5 Basic Service Delivery measurements as contained in Table A10.
- 12.3 That in terms of Section 75A of the Local Government: Municipal Systems Act, Act 32 of 2000, the tariffs for Property Rates, Electricity, Water, Sanitation and refuse removal as attached, be approved with effect from 1 July 2015.
- 12.4 That in terms of Section 75A of the Local Government: Municipal Systems Act, Act 32 of 2000, the tariffs for other services, as attached respectively, be approved with effect from 1 July 2015.
- 12.5 That the proposed electricity tariff increase is subject to approval by NERSA and will be effective as from 1 July 2015.
- 12.6 That all budget related policies as attached, (That is reviewed and amended) be approved and applicable with effect from 1 July 2015.
- 12.7 That the Service Delivery and Budget Implementation Plans be compiled and submitted to the Mayor for approval and implemented with effect from 1 July 2015.